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UNCLAS SECTION 01 OF 04 BONN 18384

DEPARTMENT PASS TREASURY, FEDERAL RESERVE AND CEA

E.O. 11652: N/A

TAGS: EFIN, ECON, GW

SUBJECT: COUNCIL OF ECONOMIC EXPERTS ANNUAL REPORT 1974:
DETAILED DATA SUMMARY

REF: BONN 18267

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1. THE GERMAN COUNCIL OF ECONOMIC EXPERTS, AN INDEPENDENT BODY OF FIVE ECONOMIC "WISEMEN" PRESENTED CHANCELLOR SCHMIDT THE STATUTORILY-REQUIRED ANNUAL REPORT ON THE STATE OF THE GERMAN ECONOMY AND ITS LIKELY FUTURE COURSE. RELEASED NOVEMBER 22 AND SUMMARIZED REFTEL, THE REPORT PRESENTED A WEALTH OF DATA WHICH ARE EXTRACTED AND CONTAINED IN THIS CABLE. THE HEART OF THE VERY EXTENSIVE REPORT IS FOUND IN THE PROJECTIONS FOR GNP GROWTH FOR THIS YEAR AS WELL AS 1975. TABLES 1 TO 4 BELOW REFLECT THESE DATA IN NOMINAL TERMS ON BOTH AN ANNUAL AND SEMI-ANNUAL BASIS, GIVING ABSOLUTE VALUES AS WELL AS PERCENTAGE GROWTH RATES BY COMPONENT. THE SAME PRESENTATION, BUT IN REAL TERMS, IS FOUND IN TABLES 5 TO 8.

2. FOR THOSE WHO DO NOT WISH TO WADE THROUGH THE TABLES, THE PRINCIPAL FACTS WHICH EMERGE CENTER ON THE GLOOMY NEWS THAT THE ECONOMY WILL REMAIN STAGNANT UNTIL THE SECOND HALF OF 1975. ANNUAL REAL GROWTH THIS YEAR WILL BE ONLY 0.5 PERCENT AND NEXT YEAR, PROVIDED THERE IS THE ANTICIPATED SECOND-HALF TAKE OFF, 2 PERCENT. HOPES ARE PINNED ON A MODEST RESURGENCE IN PRIVATE CONSUMPTION IN 1975 FROM A NEGATIVE GROWTH PICTURE IN 1974. TAX RELIEF NEXT YEAR IS SEEN AS THE MOTIVATING FACTOR IN THIS DEVELOPMENT. PUBLIC CONSUMPTION WILL GROW STILL MORE MODESTLY IN 1975 THAN IN 1974, REFLECTING THE SLOWER PACE FORECAST FOR CIVIL SERVANTS' WAGE INCREASES AND NO LARGE GOVERNMENT STIMULATIVE OUTLAYS. INVESTMENT GROWTH IS FORECAST TO CONTINUE ON THE NEGATIVE SIDE, ACTING AS A SIGNIFICANT BRAKE TO GROWTH ON THE ONE HAND, AND REFLECTING THE PESSIMISM OF THE BUSINESS COMMUNITY IN FUTURE PROSPECTS ON THE OTHER. THE FIVE WISEMEN'S PROGNOSTICATION IS FOR A GRADUAL SLOWING DOWN OF THE RATE OF INFLATION TO AN UNEXPECTEDLY LOW FIGURE OF 5.5 - 6 PERCENT NEXT YEAR. UNEMPLOYMENT IS SEEN AS INCREASING (NO QUANTIFICATION PROVIDED, HOWEVER) WITH NO SHORT-TERM POSSIBILITIES TO REVERSE THIS TREND.

3. IN THEIR PROJECTIONS, THE FIVE WISEMEN ASSUMED THAT THE CENTRAL BANK WOULD BASICALLY ADHERE TO ITS STABILITY-
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ORIENTED COURSE BUT WOULD NEVERTHELESS PERMIT SLIGHLY ACCCELERATED MONETARY EXPANSION TO FACILITATE INCREASED UTILIZATION OF PRODUCTION POTENTIALS. THEY ALSO ASSUMED THAT PUBLIC AUTHORITIES STICK TO CURRENT SPENDING PLANS -- NEITHER CURBING REGULARLY BUDGETED EXPENDITURES NOR RAISING TAXES TO COVER THE IMPENDING HIGHER DEFICITS. MOREOVER, THE COUNCIL ASSUMED THAT EXPANSIONARY GOVERNMENT PROGRAMS, IF ANY, WOULD BE IMPLEMENTED ONLY AT THE

EXPENSE OF CUTS IN EXPENDITURE PLANS ELSEWHERE. AS REGARDS THE DM PARITY, THE WISEMEN ASSUME THAT IT -- OUTSIDE THE JOINT FLOAT -- BE LEFT TO MARKET FORCES WHICH, THEY HOLD, WOULD LEAD TO AN APPRECIABLE REVALUATION. FINALLY THEY ASSUMED THAT THE INCREASE IN EFFECTIVE HOURLY WAGES, INCLUDING ALL FRINGE BENEFITS, IS KEPT TO 8.5 PERCENT WHICH -- GIVEN THE "OVERHANG" FROM 1974, I.E., THE EXCESS OF THE YEAR-END WAGE LEVEL OVER THE ALL-YEAR AVERAGE -- WOULD MEAN AN 11 PERCENT INCREASE IN TERMS OF ANNUAL AVERAGES.

4. ONE INTERESTING, IF CONTROVERSIAL, FEATURE OF THIS YEAR'S REPORT WAS THE PRESENTATIVE OF THREE DIFFERENT GNP GROWTH RATES FOR 1975 THAT WOULD PRINCIPALLY

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RESULT FROM THREE DIFFERENT RATES OF INCREASE IN HOURLY WAGES (SEE TABLE 11). ALTHOUGH THE BEST GNP GROWTH (2.5 PERCENT REAL) DERIVES FROM THE MOST MODEST WAGE INCREASE ASSUMPTION, UNDER THE LABEL OF "WHAT COULD BE" (9 PERCENT), THE MAIN FORECAST OF WHAT IS MORE LIKELY TO BE (SEE TABLES 1 - 8) ASSUMES AN 11 PERCENT WAGE RISE.
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THE HIGHEST WAGE INCREASE ASSUMPTION (12.5 PERCENT) IS SHOWN TO PRODUCE THE LOWEST GNP GROWTH OF ALL (1.5 PERCENT).

TABLE 1
 GNP FORECAST (NOMINAL)
 ANNUAL - DM BILLION

	1973	1974	1975
PRIVATE CONSUMPTION	496.8	530.9	578.7
PUBLIC CONSUMPTION	168.6	194.2	214.6
TOTAL FIXED INVEST.	230.0	227.7	234.9
MACH. & EQUIP.	96.5	93.9	100.0
CONSTRUCTION	133.6	133.8	134.9
CHNGS. IN STOCKS	9.6	4.4	6.2
NET FOREIGN BALANCE	25.3	37.9	40.6
EXPORTS	226.2	299.1	337.7
IMPORTS	200.8	261.2	297.1
GNP	930.3	995.1	1,075.0

TABLE 2
 GNP FORECAST (NOMINAL)
 PERCENT CHANGE FROM PREVIOUS YEAR
 ANNUAL

	1973	1974	1975
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PRIVATE CONSUMPTION	10.2	7	9
PUBLIC CONSUMPTION	15.1	15	10 1/2
TOTAL FIXED INVEST.	5.8	-1	3
MACH. & EQUIP.	4.3	-2 1/2	6 1/2
CONSTRUCTION	6.9	0	1
CHGS. IN STOCKS	-	-	-
NET FOREIGN BALANCE	-	-	-
EXPORTS	18.9	32	13
IMPORTS	14.9	30	13 1/2

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GNP	11.5	7	8
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TABLE 3

GNP FORECAST (NOMINAL)
SEMI-ANNUAL - DM BILLION

	1974	1975	
	1ST HA1F	2ND HALF	1ST HALF 2ND HALF

PRIVATE CONSUMPTION	253.0	277.9	275.4	303.3
PUBLIC CONSUMPTION	89.0	105.2	98.5	116.1
TOTAL FIXED INVEST.	108.5	119.2	109.3	125.6
MACH.& EQUIP.	45.4	48.5	48.3	51.7
CONSTRUCTION	63.1	70.7	61.0	73.9
CHGS. IN STOCKS	7.4	-3.0	8.2	-2.0
NET FOREIGN BALANCE	20.7	17.2	20.5	20.1
EXPORTS	142.7	156.4	163.9	173.8
IMPORTS	122.0	139.2	143.4	153.7
GNP	478.6	516.5	511.9	563.1

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TABLE 4

GNP FORECAST (NOMINAL)

PERCENT CHANGE FROM PREVIOUS YEAR

SEMI-ANNUAL

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1974 1975

1ST HALF 2ND HALF 1ST HALF 2ND HALF

PVT. CONSUMPTION 6.6 7 9 9

PUBLIC CONSUMPTION 15.5 15 10 1/2 10 1/2

TOTAL FIXED INVEST.-0.8 -1 1/2 5 1/2

MACH. & EQUIP.	-3.6	-1 1/2	6 1/2	6 1/2
CONSTRUCTION	1.3	-1	-3 1/2	4 1/2
CHGS. IN STOCKS	-	-	-	-
NET FOREIGN BALANCE	-	-	-	-
EXPORTS	32.5	32	15	11
IMPORTS	27.1	33	17 1/2	10 1/2
GNP	7.0	7	7	9

TABLE 5

GNP FORECAST (REAL - 1962 PRICES)
ANNUAL - DM BILLION

	1973	1974	1975
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PRIVATE CONSUMPTION	337.8	336.1	346.3
PUBLIC CONSUMPTION	79.9	82.8	84.3
TOTAL FIXED INVEST.	152.1	140.8	138.3
MACH. & EQUIP.	75.3	68.9	68.9
CONSTRUCTION	76.8	72.0	69.4
EXPORTS	196.8	225.7	234.9
IMPORTS	180.8	192.1	201.3
GNP	593.8	596.4	607.6

TABLE 6

GNP FORECAST (REAL - 1962 PRICES)
PERCENT CHANGE FROM PREVIOUS YEAR
ANNUAL

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	1973	1974	1975
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PRIVATE CONSUMPTION	2.9	-1/2	3
PUBLIC CONSUMPTION	4.0	3 1/2	2
TOTAL FIXED INVEST.	1.1	-7 1/2	-2
MACH. & EQUIP.	2.0	-8 1/2	0
CONSTRUCTION	0.3	-6	-3 1/2
EXPORTS	16.2	14 1/2	4
IMPORTS	9.8	6 1/2	5
GNP	5.3	1/2	2

TABLE 7

GNP FORECAST (REAL - 1962 PRICES)
SEMI-ANNUAL - DM BILLION

	1974		1975	
	1ST HALF	2ND HALF	1ST HALF	2ND HALF
PRIVATE CONSUMPT.	162.1	174.0	166.0	180.3
PUBLIC CONSUMPTION	39.5	43.3	40.1	44.2
TOTAL FIXED INVEST.	68.3	72.5	65.2	73.1
MACH. & EQUIP.	34.1	34.8	33.6	35.3
CONSTRUCTION	34.3	37.7	31.6	37.8
EXPORTS	112.5	113.2	115.2	119.7
IMPORTS	93.3	98.8	98.5	102.8
GNP	294.4	302.0	294.4	313.2

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TABLE 8

GNP FORECAST (REAL - 1962 PRICES)
 PERCENT CHANGE FROM PREVIOUS YEAR
 SEMI-ANNUAL

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	1974	1975		
	1ST HALF	2ND HA1F	1ST HALF	2ND HA1F
				

PVT.CONSUMPTION	-1.1	0	2 1/2	3 1/2
PUBLIC CONSUMPTION	4.0	3	1 1/2	2
TOTAL FIXED INVEST.	-7.2	-7 1/2	-4 1/2	1
MACH. & EQUIP.	-9.0	-8	-1 1/2	1 1/2
CONSTRUCTION	-5.4	-7	-8	1/2
EXPORTS	17.6	12	2 1/2	5 1/2
IMPORTS	3.6	9	5 1/2	4
GNP	1.3	-1/2	0	3 1/2

TABLE 9

PRICE INCREASES OVER PREVIOUS YEAR
 (NATIONAL ACCOUNTS CONCEPT)
 ANNUALLY

	1973	1974	1975
			

PRIVATE CONSUMPTION	7.0	7 1/2	5 1/2-6
GNP	5.9	6 1/2	6

TABLE 10

PRICE INCREASES OVER PREVIOUS YEAR
(NATIONAL ACCOUNTS CONCEPT)
SEMI-ANNUALLY

	1974		1975	
	1ST HALF	2ND HALF	1ST HALF	2ND HALF
.....				

PRIVATE CONSUMPTION	7.7	7	6 1/2	5 1/2
GNP	5.7	7 1/2	7	5

TABLE 11

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1975 FORECAST OPTIONS
PERCENT CHANGE FROM PREVIOUS YEAR

HOURLY WAGES	11	9	12 1/2
GNP, REAL	2	2 1/2	1 1/2
PRIVATE CONSUMPTION	3	3	2 1/2
PUBLIC CONSUMPTION	2	2	2
TOTAL FIXED INVEST.	-2	2	-2
MACH. & EQUIP.	0	3	-1/2
CONSTRUCTION	-3 1/2	1	-3 1/2
EXPORTS	4	3	4
IMPORTS	5	5 1/2	4 1/2
PRICE INCREASES			
GNP	6	5	7 1/2
PRIVATE CONSUMPTION	5 1/2-6	5-5 1/2	7 1/2

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